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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
9 July 1954

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TO: Deputy Director (Intelligence)

SUBJECT: Fourth week of Trieste discussions with Italy

In the fourth week of the London negotiations over the proposed solution of the Trieste problem, the United States and Britain were close to a provisional agreement with Italy on most of the major issues of dispute. The only gap in the outline was lack of a complete understanding on the question of financial payments. If tentative agreement can be reached on this point, American and British representatives will approach Belgrade for discussion early next week, as the outline would differ in several respects from the 31 May British-American-Yugoslav "memorandum of understanding."

Elsewhere the atmosphere continued favorable for an early settlement of the entire problem. In Belgrade, Vice President Kardelj, in an off-the-record press conference on 2 July, displayed an extremely co-operative attitude. Government opinion in Rome remained optimistic. On 2 July Secretary Dulles, in a message to Premier Scelba, expressed his appreciation of Scelba's strong stand in favor of an early settlement. In Trieste, the local political parties, although opposed to a solution entailing partition, remained uncertain as to what action they might take to protest such a solution.

The major points on which the London negotiators have reached provisional accord as a basis for further discussions with Yugoslavia are:

- (1) Border rectification, which has first priority with the Italians. Britain and the United States will try to obtain for Italy several modifications in the Yugoslav-proposed line.

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- (2) Changes in the preamble to the proposed four-power agreement. The Italians will drop their demands for any great changes if they obtain satisfaction on border modification. (The changes the Italians have been demanding would give the agreement a more provisional character.)
- (3) Italian troop entry. Arrangements are to be covered by an exchange of letters among the three London negotiators.
- (4) Autonomy. The United States and Britain will try to get Yugoslav approval of the principle of reciprocity in this matter. (The Yugoslavs have not agreed to autonomy for the area they will administer.)
- (5) Minorities. The Italian revision of the Yugoslav proposal is not expected to present "insuperable obstacles."
- (6) Free Port provisions. The Italians will create a free port in Trieste city and will consult with other user-nations over its regulation.
- (7) Freedom of circulation. An Anglo-American draft statute has been accepted by Italy, ad referendum.
- (8) Slovene cultural houses and credit institutions in Zone A. The Italians are prepared to meet Yugoslav requests in this matter, but ask reciprocal advantages in Zone B.

Progress was also being made on the financial question, although the Italian Treasury Ministry has been laggard in presenting its views. After consultation with a Treasury expert from Rome, Italian delegate Brosio on 6 July presented a draft which was vague in many details and which left a number of points to be resolved by Italian-Yugoslav talks after the main Trieste agreement, American delegate Thompson explained that the United States held that the slate should be "wiped clean of all financial claims" with the signing of the final agreement.

In the Anglo-American view, the provisional outline of agreement now taking shape must remain very close to the 31 May memorandum of understanding with Yugoslavia, lest the Yugoslavs reopen discussion on several major questions. In any case, Thompson warned on 8 July, the Yugoslavs will probably take several weeks to consider the provisional outline in order to delay an agreement on Trieste until after the pending Balkan alliance is signed among Greece, Turkey, and Yugoslavia. An indication of this possible attitude was shown by Yugoslav

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foreign secretary Popovic in an interview with American ambassador Riddleberger on 5 July. Popovic stated that Yugoslavia had made its maximum concessions regarding Trieste and that he hoped the United States and Britain would not "come back with further demands."

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